CONTROLLED FOODS INTERNATIONAL LTD.

ANNUAL REPORT 1972

CONTROLLED FOODS INTERNATIONAL LTD.

file

CONTROLLED FOODS INTERNATIONAL LTD.

Interim Report to Shareholders

for the six months ended June 30, 1972

To our Shareholders:

The results for the first six months of 1972 have been most encouraging for your Company. Dollar volume on a per unit basis continues to increase and pre-tax earnings are approximately 50% ahead of 1971.

Earnings for the first six months amounted to $230,179 (or 8.8 cents per share) compared to $174,600 (or 6.7 cents per share) for the same period in 1971. Higher unit volumes, operating efficiencies, plus a reduction in cost related to general administration are responsible for improved profits.

The Company opened three Fuller's restaurants during the first half of 1972; bringing the total now operating to seven. Three additional units are presently under construction with opening dates of August through October. It should be noted that the Company follows the conservative policy of charging start-up costs against income for each new unit as incurred. The Company is anticipating sales of $3.5 million in the Fuller's division this year and $9 million for 1973.

The trend established to date should continue to result in record volumes and profits for 1972.

On Behalf of the Board,

LeRoy E. Fuller
President

August 18, 1972.

CONTROLLED FOODS INTERNATIONAL LTD.
(and its wholly-owned subsidiaries)

STATEMENT OF CONSOLIDATED EARNINGS

For the Six Months ended June 30, 1972
(with comparative figures for 1971)

(UNAUDITED)

	1972	1971
Gross operating revenues	$7,069,476	$6,195,648
Costs and expenses:		
Operating, selling, general and administrative	6,335,998	5,661,320
Interest	99,146	79,261
Depreciation	187,359	154,865
	6,622,503	5,895,446
Income before income taxes	446,973	300,202
Estimated income taxes	216,794	125,602
Income for the period	$ 230,179	$ 174,600
Earnings per share	8.8¢	6.7¢

Note:
The calculation of earnings per share in each year is on the basis of 2,625,000 shares outstanding.

CONTROLLED FOODS INTERNATIONAL LTD.
(and its wholly-owned subsidiaries)

STATEMENT OF CONSOLIDATED SOURCE AND APPLICATION OF FUNDS

For the Six Months ended June 30, 1972
(with comparative figures for 1971)

(UNAUDITED)

	1972	1971
Source of funds:		
Net income for the six months	$ 230,179	$ 174,600
Add charges not requiring an outlay of funds:		
Depreciation and amortization	187,359	154,865
Development and franchise costs	22,261	20,597
Funds provided by operations	439,799	350,062
Additional long-term debt financing	225,000	55,604
Disposal of fixed assets	125,000	297,544
Decrease in long-term receivables	190,850	–
Decrease in other assets	28,391	8,335
	1,009,040	711,545
Application of funds:		
Purchase of fixed assets	1,240,952	415,269
Retirement of long-term debt	186,891	484,686
	1,427,843	899,955
Decrease in working capital	418,803	188,410
Working capital deficiency, January 1	148,219	823,525
Working capital deficiency, June 30	$ 567,022	$1,011,935

ST. MAURICE CAPITAL CORPORATION LIMITED

NOTICE OF SPECIAL GENERAL AND ANNUAL GENERAL MEETING OF SHAREHOLDERS

May 4, 1972

NOTICE IS HEREBY GIVEN that a Special General Meeting and the Annual General Meeting of Shareholders of ST. MAURICE CAPITAL CORPORATION LIMITED will be held at the Red Room, Windsor Hotel, Dominion Square, Montreal, Quebec at 10:30 a.m. (Montreal Time) on the 4th day of May, 1972 for the following purposes:

1. To approve, sanction and confirm By-Law No. 63 of the Company adopted by the directors of the Company at a meeting held on February 14, 1972, providing for the increase in the number of directors of the Company from ten (10) to twelve (12);

2. To receive and consider the report of the directors, the financial statements of the Company for the year ended December 31, 1971 and the report of the auditors thereon;

3. To elect directors;

4. To appoint auditors and to authorize the directors to fix their remuneration;

5. To transact such other business as may properly be brought before the meeting.

By Order of the Board of Directors

E. D. BATEMAN
Secretary-Treasurer

DATED at Montreal, this 18th day of April 1972.

Any shareholder who will be unable to attend the Meeting is urged to specify on the attached form of proxy the manner in which the shares held by him are to be voted, sign it and return it in the enclosed stamped and addressed envelope.

PROXY STATEMENT AND INFORMATION CIRCULAR

1. SOLICITATION OF PROXIES

This statement is furnished in connection with the solicitation of proxies by the management of ST. MAURICE CAPITAL CORPORATION LIMITED (hereinafter called "the Company"). It contains information concerning the matters to be voted upon at the Special General Meeting and Annual General Meeting of Shareholders of the Company to be held at the Red Room, Windsor Hotel, Dominion Square, Montreal, Quebec at 10:30 a.m. (Montreal Time) on the 4th day of May, 1972.

No director of the Company has informed the management that he intends to oppose any of the proposed actions for which the approval of the shareholders is sought, and management knows of no business which will be presented for consideration other than that mentioned in items 1, 2, 3 and 4 of the notice of meeting.

Solicitation will be by mail, possibly supplemented by telephone or other personal contact by regular employees of the Company. The costs of circulating this information circular and of solicitation of the enclosed proxy are being borne by the Company.

2. APPOINTMENT AND REVOCATION OF PROXIES

The persons named in the enclosed form of proxy are directors of the Company.

A shareholder has the right to appoint a person to represent him at the meeting other than the persons designated in the enclosed form of proxy and may do so either by inserting such other person's name in the blank space provided in such form and deleting the names printed in such form or by completing another proper form of proxy and, in either case, delivering such proxy to the secretary of the Company, c/o Canada Permanent Trust Company, 600 Dorchester Blvd. West, Montreal 101, Quebec.

Any proxy submitted by a shareholder may be revoked by the person giving it either by executing a proxy bearing a later date or a written notice of revocation and delivering the same to the secretary of the Company, c/o Canada Permanent Trust Company, 600 Dorchester Blvd. West, Montreal 101, Quebec. All proxies must be lodged with the secretary of the Company at or prior to the commencement of the meeting.

3. VOTING SHARES AND PRINCIPAL HOLDERS THEREOF

The Company has outstanding 5,697,480 common shares without nominal or par value. Shareholders of record at the time of the meeting are entitled to one vote for each share held.

The directors and senior officers of the Company have no knowledge of any shareholder that beneficially owns, directly or indirectly, more than 10% of the outstanding shares of the Company.

4. APPROVAL OF BY-LAW NO. 63

On February 14, 1972, the directors passed By-Law No. 63 of the Company which increases the Board of Directors of the Company from ten (10) to twelve (12) and accordingly are now requesting shareholder approval of this By-Law.

5. ELECTION OF DIRECTORS

Management's nominees for election as directors until the next Annual Meeting are the following persons. Information as to shares beneficially owned, not being within the knowledge of the Company, has been furnished by the respective directors individually.

Name and Office Held Within Company	Principal Occupation at Present and During Past 5 Years	Date Commenced Services as Director	No. of Shares Beneficially Owned
T. L. CHARNE, Q.C. Vice-President	President, St. Maurice Properties Limited, 1971. Vice-President and General Counsel, Aronovitch and Leipsic Limited, Commercial and Industrial Real Estate, 1967-71.	August 1971	35,000
DR. J. M. GILLIES	Dean, Faculty of Administrative Studies, York University.	April 1971	200
D. C. HANNAFORD	President and Partner, Mead & Co. Limited, Investment Dealers.	January 1971	129,920
R. B. LOVE, Q.C.	Partner, Macleod Dixon, Barristers and Solicitors.	April 1971	10,000
P. E. MARTIN	Vice-President, Power Corporation of Canada, Limited, 1969. Assistant Secretary Power Corporation of Canada, Limited, 1967-69.	January 1971	30,001
D. A. ROSS, C.A.	President, Farmers & Merchants Trust Co. Ltd.	March 1972	100
W. TERON Chairman	President, William Teron & Associates, Real Estate Developers, 1970. President, William Teron Limited, wholly-owned subsidiary of Canadian Interurban Properties Ltd., 1967-70.	January 1971	500,000
J. A. TIMMINS	President, Gates Learjet of Canada Ltd., Aircraft Distributors, 1970. President, Timmons Shannon & Associates, Aircraft Marketing, 1967-70.	January 1971	59,480
R. H. E. WALKER, Q.C.	Partner, Martineau, Walker, Allison, Beaulieu, Phelan & MacKell, Advocates.	January 1971	142,310
J. B. WHITELY President and Chief Executive Officer	President, St. Maurice Capital Corporation Limited, 1970. President, J. B. Whitely & Company Limited, Financial Consultants, 1969-70. Vice-President, Finance, Canadian Inter/Urban Properties Limited, 1968-69. Vice-President, Annett Partners Limited, Investment Dealers, 1967-68.	January 1971	331,700

6. REMUNERATION OF MANAGEMENT

The aggregate direct remuneration paid or payable to the directors and senior officers for the financial year ended December 31, 1971 is as follows:

Directors' remuneration	$ Nil
Officers' remuneration	
By the Company	$48,430
By a Subsidiary	$18,740

During the financial year ended December 31, 1971 the cost to the Company and a subsidiary in respect of pension benefits to be provided for its senior officers was $1,340.

Since January 1, 1971, options to purchase common shares of the Company were granted to certain senior officers in consideration of their service to the Company. The following information is submitted regarding these options.

No. of Common Shares subject to the Option	Date of Granting of the Option	Option Price per Share	When Option is Exercisable	Expiration Date
100,000	January 26, 1971	$.49	Exercisable over 5 years on a cumulative basis with ⅕ of the total exercisable each year.	May 18, 1975
25,000	May 13, 1971	$.67		May 13, 1976
50,000	November 26, 1971	$.51		November 26, 1976

The option dated January 26, 1971 for 100,000 shares replaces an option with the same terms and conditions granted on May 19, 1970 by the Company's predecessor, St. Maurice Gas Inc.

The price of the Company's common shares for the thirty day periods prior to May 13, 1971 and November 26, 1971 ranged from $.80 to $.95 and $.58 to $.68 respectively.

7. INTEREST OF DIRECTORS IN MATERIAL TRANSACTIONS

Certain directors had a material interest in two major transactions carried out by the Company since January 1, 1971, namely:

(1) The purchase of the net assets of St. Maurice Gas Inc. in consideration for the issuance of 2,015,150 common shares of the Company, which shares were distributed in turn by St. Maurice Gas Inc. to its shareholders on a share for share basis in the course of winding up.

(2) The purchase of all the outstanding shares of M.N.S. Investments Limited in consideration for the issuance of a total of 3,382,320 common shares of the Company to shareholders of M.N.S. Investments Limited on the basis of 33.16 common shares of the Company for each share of M.N.S. Investments Limited held.

The interest of the directors affected arose from their ownership of shares of St. Maurice Gas Inc. and M.N.S. Investments Limited, as follows:

Name of Director	No. of Shares of St. Maurice Gas Inc. Held	No. of Shares of M.N.S. Investments Limited Held
D. C. Hannaford	23,000	4,500
W. Teron	—	16,000
J. A. Timmins	100	3,000
R. H. E. Walker	100	5,000
J. B. Whitely	100	10,000

P. E. Martin is a shareholder, director and secretary of Nellmart Limited, which owned 15,000 common shares of M.N.S. Investments Limited and, as one of the selling shareholders, received common shares of the Company on the above basis.

8. APPOINTMENT OF AUDITORS

It is proposed to reappoint Riddell Stead & Co., Chartered Accountants, 630 Dorchester Blvd. West, Montreal, as auditors of the Company and to provide that the remuneration of the auditors be fixed by the directors of the Company.

HIGHLIGHTS

	(000's eliminated) 1972	1971
Revenues	$15,555	$13,236
Net income for year before extraordinary income	544	473
Net income for year	595	1,321
Cash flow	1,033	927
Total assets	8,970	8,136
Shareholders' equity	5,340	4,674

	1972	1971
Per common share:		
Net income for year before extraordinary income	$ .21	$ .18
Net income for year	.23	.50
Cash flow	.39	.35
Shareholders' equity	2.01	1.78

	1972	1971
Number of restaurants at end of year:		
A&Ws	49	49
Fuller's	10	4
Other	3	3
	62	56

LeRoy E. Fuller
President

TO OUR SHAREHOLDERS:

It is with a great deal of pleasure that I report to you the results of 1972.

Earnings are up to $543,677 or 21 cents per share compared to $473,055 or 18 cents per share for 1971. This represents an increase of 15% and, although noteworthy, it does not reflect the underlying achievements made by your Company this past year.

For the first time the Company recorded a substantial gain in operating revenues ($15,398,134 vs $12,966,184 last year). This represents a 19% increase. This increase was derived through a better performance in the A&W Division; a full year's operating revenue from four Fuller's restaurants; plus the opening of another six Fuller's restaurants at various intervals throughout the year. Regional management has been established in Toronto, Ontario and Edmonton, Alberta to provide closer supervision for the Fuller's operation. This style of *close supervision* management has proven very effective in our A&W Division in recent years.

As stated in previous reports the Company follows the conservative practice of charging start-up costs for each new unit against income as incurred.

We stated in the Third-Quarter Report that the Company was in a turn-around position. The Company, for the second year, strengthened its balance sheet and improved its working capital position. The predicted turnaround is further supported by increased revenues for 1972. This trend will continue in 1973, as the management of your Company has an aggressive expansion program planned. At the present time new A&W units are under construction in Sherbrooke, Quebec and Brockville, Ontario and building permits have been applied for in Edmonton, Alberta and St. Thomas, Ontario. Nine Fuller's restaurants are presently under construction in the cities of Vancouver (1), Edmonton (2), Regina (1), Saskatoon (1), Hamilton (1), Ottawa (2) and Hull, Quebec (1). This will be the first Fuller's restaurant to be built in the Quebec market and we are anxiously looking forward to the results.

The Mississauga Shopping Centre, due to open in October of this year, offers a unique growth opportunity for your Company. Although we are presently operating two units in the Londonderry Mall in Edmonton, Alberta, this is the first time that your Company has had the opportunity to provide all of the eating facilities within a major shopping complex. The only other eating facilities will be within the major department stores. Our plans include a Fuller's restaurant; a fully licensed steak and lobster restaurant; two malt bar/hot dog kiosks, plus a Fuller's Jr.; a small cafeteria; and a Gourmet Fair. The Gourmet Fair will consist of six individually operated units providing common seating for approximately 400 customers. It will afford the customer a multiple of food choices, including Chinese and Italian dishes, plus a delicatessen. Plans and designs for these restaurants have been completed and in some instances work is in progress.

Continued growth necessitated the corporate offices to be moved to the Brentwood Shopping Centre in Burnaby, in February of this year. With available space, the Company has now installed its own computer, which is scheduled to be in full operation by June. This facility will provide prompt, accurate information, vital to an efficient operation.

The future outlook? Continued increase in financial strength. For 1973, revenues are projected to increase in excess of 30% with a significant gain in operating profits.

On behalf of the Board:

LeRoy E. Fuller

LeRoy E. Fuller

President

April 27, 1973

J. Marcel Prefontaine
Vice President

Robert R. Roe
Secretary-Treasurer

James R. Turriff
Controller

D. Glen Neil
Vice President

FINANCIAL REVIEW

Financial Position

Shareholders' equity was $5,339,537 ($2.01 per share) at the end of 1972 compared to $4,674,188 ($1.78 per share) at the end of 1971.

Current assets at year end were $1,687,567 vs current liabilities of $1,483,492 to give the Company a strong working capital surplus of $204,075. This compares to a working capital deficiency of $148,219 at the end of 1971.

Historically, companies in the fast food industry have operated with a relatively low current ratio because all sales are for cash and large inventories are not required. Management therefore considers that its working capital position is extremely healthy.

Revenues

Sales of food and supplies were $15,398,134 in 1972 compared with sales of $12,966,184 in 1971, an increase of 18.8%. These sales were from the following sources:

	1972	1971
A&W Drive-Ins	$10,929,000	$10,466,000
Fuller's	3,595,000	870,000
Burger Family	—	631,000
Other	874,000	999,000
	$15,398,000	$12,966,000

Performance and Growth

A&W Drive-Ins:

The average sales per unit for A&W increased from $212,200 in 1971 to $223,042 in 1972, an increase of 5.1%.

During the year, franchises were acquired for new A&W's in Sherbrooke, Quebec; Edmonton, Alberta; and St. Thomas, Ontario. Because of increasing difficulty in obtaining good sites and more stringent environmental codes, the granting of building permits has been slowed.

Fuller's Restaurants:

Sales in this Division have increased from $870,000 in 1971 to $3,595,000 in 1972. The Company had four units in operation at the end of 1971 compared to ten units by the end of 1972.

Burger Family:

This Division was sold in September, 1971 and consequently did not make a contribution to sales in 1972. In fiscal 1971, up to the date of the sale, this Division contributed $631,000 in sales.

Other Restaurants:

Under this Division the Company operates the Hickory House in Winnipeg, the Buffalo Bill Steak Village in Edmonton, the Fuller's Jr. in the Londonderry Mall in Edmonton and the Country Fare Tavern in London, Ontario. During the year the Company closed and sold the Country Fare Tavern.

Earnings

Income before income taxes and extraordinary items was $1,060,713 in 1972 compared to $869,147 in 1971; an increase of 22%. It should be noted, the company follows the conservative accounting practice of charging start-up costs for each new unit against income as incurred.

Extraordinary items of income were $51,672 in 1972 and $848,285 in 1971. The 1972 income has resulted primarily from claiming amounts for tax purposes in excess of those recorded in the accounts. The 1971 extraordinary income has resulted from the net gain on the sale of the Burger Family trademarks and a credit from the reduction in income taxes arising from carrying forward prior years' losses and claiming amounts for tax purposes in excess of those recorded in the accounts.

Our income tax rate increased from 45.6% in 1971 to 48.7% in 1972. The Company and its subsidiaries have unused tax losses aggregating $325,000 which are available for deduction from future taxable income within the limitations prescribed by Canadian tax law.

Net income before extraordinary items was $543,677 in 1972 or 21¢ per share compared with $473,055 in 1971 or 18¢ per share.

Net income after extraordinary items was $595,349 in 1972 compared to $1,321,340 in 1971. Earnings per share are based on 2,630,833 shares in 1972 and 2,625,000 shares in 1971.

A&W DIVISION

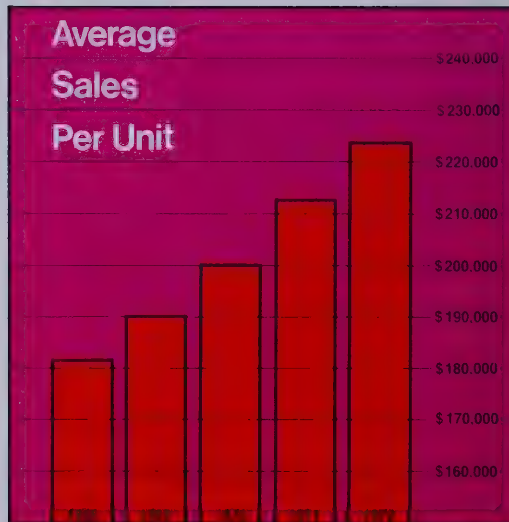
This Division of your Company has continually recorded an increase in gross volume revenues. This past year was no exception (note chart). Revenues were up 5.1% while profit increases amounted to 7.2%.

Special emphasis was placed on promoting the Chubby Chicken program. This promotion, which was geared to selling chicken Monday through Thursday on a discount basis from 4:00-8:00 p.m., proved highly successful; being the main contributor towards this year's increased performance.

During the year A&W Food Services of Canada Ltd., together with your Company and other franchisees, established Regional Associations across Canada. These associations were formed to create closer harmony between the franchisees and co-ordinate local advertising programs, promotions, quantity buying, etc. Your Company feels that these associations will assist in keeping A&W *"Number One"*, in Canada.

The A&W Division is off to a fast start in the first quarter of 1973. Revenues have increased by 15% and profits are up substantially. We attribute this improved performance to our national advertising program which continues to develop new customers and the highly successful Chubby Chicken program combined with the introduction of *"Teen Burger Tuesday"*. The Teen Burger, our most popular burger, is being offered to the customer for a special price each Tuesday and is creating new revenues on a day considered to be normally slow.

An expansion of this Division of your Company is planned for 1973. New openings are scheduled in Alberta, Ontario and Quebec. Our policy of consistent up-grading of building design and decor will continue. Additional outlets will be built wherever franchises are available within our market area.




A&W
CHUBBY CHICKEN
GREAT FOR
CLUB BANQUETS
OR FAMILY DINNERS

Fuller's

FULLER'S DIVISION

The objectives of the Fuller's Division are to operate FULLER'S units which provide:

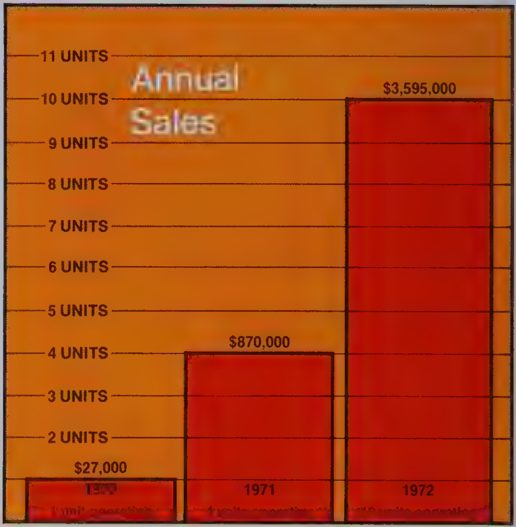
- Good Food in a Colourful Atmosphere
- Moderate Prices
- Menu Variety
- Fast Cheerful Service
- Complete Parking Facilities

The Division operates ten Fuller's, six of which were built and opened in 1972. All Fuller's units are successful family restaurants operating under the Fuller's objectives.

The criteria for a successful Fuller's Restaurant is quality personnel, sound efficient preparation-serving methods, and menu determination based on customer reaction. Your Company accomplishes these objectives with the installation of modern equipment and the purchasing of quality food products.

The continuing strong market potential of the food industry is confirmed by the ever-increasing number of families eating out. These habits create the sales volume potential required for the continued expansion of the Fuller's chain of restaurants. To capture this market, the Fuller's Division has defined the operating objectives, criteria and procedures necessary to operate an efficient, friendly Fuller's restaurant. The management and staff of the Fuller's Division have the background and experience required to ensure that defined requirements are implemented in the Fuller's expansion program. The growth to date of the Fuller's Division is indicated by the sales volume graph on the right.

Present sales volumes and potential markets are the reasons your Company is continuing its expansion program in the Fuller's Division. We have embarked on an advertising program emphasizing "A meal at Fuller's is a happy experience".



Controlled Foods International Ltd. (and its wholly-owned subsidiaries)
CONSOLIDATED BALANCE SHEET December 31, 1972

ASSETS

	1972	1971
CURRENT:		
Cash	$ 943,383	$ 609,355
Notes and accounts receivable (note 2)	424,894	972,518
Inventory at the lower of cost and net realizable value	249,937	210,562
Prepaid expenses and deposits	69,353	47,287
Total current assets	1,687,567	1,839,722
LONG TERM NOTES AND RECEIVABLES (note 3)	299,174	333,850
FIXED (note 4):		
Buildings, equipment and leasehold improvements	5,705,071	4,787,295
Less accumulated depreciation and amortization	1,798,519	1,575,189
	3,906,552	3,212,106
Land	2,107,102	1,624,953
Properties and equipment held for resale	349,564	554,900
	6,363,218	5,391,959
OTHER (note 5):		
Franchises at cost less amortization	378,452	400,141
Development costs	18,624	20,441
Deferred charges	82,886	110,199
Deposits	140,432	39,931
	620,394	570,712
	$8,970,353	$8,136,243

LIABILITIES

	1972	1971
CURRENT:		
Accounts payable and accrued charges	$1,132,166	$1,135,544
Income and other taxes payable	123,276	500,132
Current portion of long term debt (note 6)	228,050	352,265
Total current liabilities	1,483,492	1,987,941
LONG TERM DEBT (note 6)	2,147,324	1,474,114
SHAREHOLDERS' EQUITY:		
Capital stock (note 7)—		
Authorized:		
4,000,000 shares without par value		
Issued and outstanding:		
2,660,000 shares	3,381,509	3,311,509
Retained earnings	1,958,028	1,362,679
	5,339,537	4,674,188
	$8,970,353	$8,136,243

On behalf of the Board:

LeRoy E. Fuller Director
LeRoy E. Fuller

R. J. Turner Director
R. J. Turner

See accompanying notes to the financial statements.

STATEMENT OF CONSOLIDATED EARNINGS AND RETAINED EARNINGS

Year ended December 31, 1972

	1972	1971
Revenues:		
Sales—food and supplies	$15,398,134	$12,966,184
Licence fees and royalty income		21,820
Rental income	102,407	116,178
Other income	54,640	131,879
	15,555,181	13,236,061
Costs and expenses:		
Cost of sales—food and supplies	5,401,757	4,713,291
Depreciation and amortization of fixed assets	365,926	317,307
Selling, operating, general and administrative expenses	8,491,232	7,155,237
Interest—		
Long term debt	205,353	168,125
Other	30,200	12,954
	14,494,468	12,366,914
Income before income taxes	1,060,713	869,147
Income taxes	517,036	396,092
Income before extraordinary items	543,677	473,055
Extraordinary items (note 8)	51,672	848,285
Net income for year	595,349	1,321,340
Retained earnings, beginning of year	1,362,679	41,339
Retained earnings, end of year	$ 1,958,028	$ 1,362,679
Earnings per share (note 7):		
Income before extraordinary items	$ .21	$ .18
Net income for year	$ .23	$ .50

See accompanying notes to the financial statements.

STATEMENT OF CONSOLIDATED SOURCE AND APPLICATION OF FUNDS
Year ended December 31, 1972

	1972	1971
Source of funds:		
Operations—		
Income before extraordinary items	$ 543,677	$ 473,055
Items not involving funds:		
Depreciation and amortization of fixed assets	365,926	317,307
Amortization of franchises and other assets	53,667	28,516
Deferred income taxes	69,322	108,347
Total funds from operations	1,032,592	927,225
Issue of shares	70,000	
Additional long term debt financing	935,919	875,233
Decrease in long term receivables	217,388	32,294
Disposal of other assets		68,194
Disposal of fixed assets	507,712	444,936
Sale of Burger Family trade marks and other extraordinary items		588,862
	2,763,611	2,936,744
Application of funds:		
Fixed assets acquired	2,797,112	1,523,221
Less assets sold and leased back	940,923	
	1,856,189	1,523,221
Retirement of long term debt	262,709	738,217
Increase in long term receivables	182,712	
Increase in other assets	103,349	
Extraordinary items	6,358	
	2,411,317	2,261,438
Increase in working capital	352,294	675,306
Working capital deficiency, beginning of year	(148,219)	(823,525)
Working capital (deficiency), end of year	$ 204,075	$ (148,219)

See accompanying notes to the financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 1972

1 Principles of consolidation

The consolidated financial statements include the financial statements of Controlled Foods International Ltd. and all its subsidiary companies. All U.S. balances have been translated into Canadian funds at par.

The company acquired various subsidiary companies by means of the issue of shares. The assets and liabilities of these companies have been combined in the accompanying balance sheet on a "pooling of interests" basis. The acquisition of all the outstanding shares of a company operating in Southern Ontario and the cost of the assets and undertaking of three restaurants acquired, principally for cash, by a subsidiary company have been accounted for as "purchases".

2 Notes and accounts receivable

Notes and accounts receivable comprise the following:

	1972	1971
Due from sale of Burger Family trade mark—current portion	$200,000	$500,000
Due from sale of property	98,705	111,150
Mortgage advances due		260,386
Trade and other receivables	59,710	83,878
Amounts due from shareholders	17,104	17,104
Due from director	49,375	
	$424,894	$972,518

During the year the company advanced $49,375 to a director who is also a senior officer of the company. The advances are repayable within one year without interest.

3 Long term notes and receivables

Long term notes and receivables comprise the following:

	1972	1971
Due from officers	$ 70,000	
Due from sale of Burger Family trade mark—7%—February, 1973		$200,000
Due from sale of property—		
8% receivable in monthly instalments to April, 1987	102,444	133,850
8% receivable in monthly instalments to August, 1978	37,953	
10% receivable in monthly instalments to June, 1977	78,777	
12% receivable August, 1974	10,000	
	$299,174	$333,850

During the year the company advanced $70,000 to officers of the company to enable them to purchase shares of the company under stock option plans (note 7). The loans are repayable in four equal annual instalments commencing January 1, 1974 with interest at 8% per annum and are secured by a pledge of the securities purchased. The company has agreed to waive any interest in excess of dividends declared and paid in respect of the shares purchased.

4 Fixed assets

Fixed assets are valued at cost to the consolidated companies except for the assets of discontinued businesses which are valued at estimated realizable value. The major categories of assets are as follows:

	Cost	Accumulated depreciation and amortization	1972 net value	1971 net value
Buildings	$2,335,146	$ 379,384	$1,955,762	$1,566,233
Equipment, signs, automotive, fencing and paving	2,381,995	1,205,269	1,176,726	1,149,303
Leasehold improvements	987,930	213,866	774,064	496,570
	5,705,071	1,798,519	3,906,552	3,212,106
Land	2,107,102		2,107,102	1,624,953
	$7,812,173	$1,798,519	6,013,654	4,837,059
Property and equipment from discontinued businesses, held for resale—at estimated realizable value			349,564	554,900
			$6,363,218	$5,391,959

The companies provide depreciation on their assets on a straight-line basis using rates designed to amortize the cost over the estimated useful life of the assets.

5 Other assets

Franchises are being amortized on a straight-line basis over the terms of the contractual agreements varying to a maximum of twenty years.

Development costs are being amortized on a straight-line basis over three to five years from the commencement of the programs.

Deposits include $105,600 on the purchase of real property which was acquired subsequent to the year end.

6 Long term debt

Long term debt consists of:	1972	1971
Mortgages and agreements—with interest rates from 7% to 12% and maturing at various dates to August, 1986, secured by charges against land and buildings of subsidiary and affiliated companies	$1,910,286	$1,532,906
Notes payable—with interest rates from 8% to 8½% and maturing at various dates to April, 1977. With the exception of one note in the amount of $63,750 which is secured by a floating charge debenture on the assets of a subsidiary company, none of the notes is secured	84,584	167,333
Lien notes payable—due at various dates to July, 1978, secured by charges against equipment of subsidiary and affiliated companies	380,504	126,140
	2,375,374	1,826,379
Less amounts due within one year	228,050	352,265
	$2,147,324	$1,474,114

The aggregate amount of principal repayable over the next five years is as follows: 1973—$228,050; 1974—$153,651; 1975—$457,472; 1976—$539,701; 1977—$562,010.

7 Capital stock

During 1972 the company amended options granted in 1971 to senior employees. The amended options provided for the purchase of 35,000 shares at a price of $2 per share exercisable at any time after July 1, 1972 and prior to June 30, 1977. These options were exercised during the year and 35,000 shares issued for a cash consideration of $70,000.

The company granted options to eight employees to purchase 40,000 shares at a price of $2.50 per share exercisable at various dates to June 30, 1977 with respect to 32,000 shares and June 30, 1978 with respect to 8,000 shares.

There would be no dilutive effect on earnings per share if these options were exercised.

8 Extraordinary items

Extraordinary items comprise the following—income or (loss):	1972	1971
Gain on sale of Burger Family trade marks, after provision for applicable U.S. Federal and State income taxes of $399,500		$764,157
Costs incurred or provided in respect of business discontinuance (including income tax reductions of $22,060 in 1972)	$ (650)	(24,219)
Reduction in income taxes arising from carry forwards of prior years losses and claiming amounts for tax purposes in excess of those recorded in the accounts (see note 10)	52,322	108,347
	$51,672	$848,285

9 Statutory information

The remuneration of directors and senior officers amounted to $125,241 (1971—$123,842).

10 Deferred tax charge

No recognition has been made in the accounts for possible tax reductions of $307,000 in future years resulting from costs recorded in the accounts in excess of those claimed for tax purposes and from losses incurred by certain subsidiaries in 1972 and prior years, which are available for deduction from future taxable income in the respective companies within the limitations prescribed by Canadian tax law.

11 Commitments

Certain subsidiary companies have entered into leases of equipment and real property for varying terms up to a maximum of twenty-one years with rentals varying in some instances with gross revenues, taxes, insurance and other occupancy charges. Minimum rentals for the next five years are as follows:

1973—$661,410; 1974—$637,068; 1975—$634,618; 1976—$640,308; 1977—$609,668.

A subsidiary company has entered into contracts to acquire real property and construct buildings for six restaurants at an estimated total cost of $1,254,000, of which $105,600 was incurred during the year.

Auditors' Report *to the Shareholders of Controlled Foods International Ltd.*

We have examined the consolidated balance sheet of Controlled Foods International Ltd. and its wholly-owned subsidiaries as at December 31, 1972 and the consolidated statements of earnings and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1972 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson, Gordon & Co.

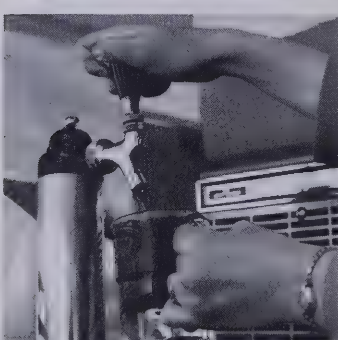
Vancouver, Canada,
April 11, 1973.

Chartered Accountants

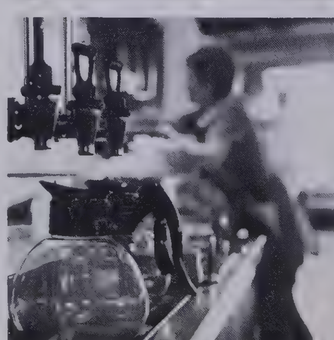
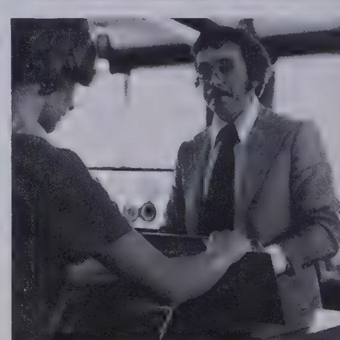
Employees are Controlled Foods. Each individual employee determines what the Company is, through his or her conduct towards the public. Whether preparing a salad, cooking a hamburger, setting a table, waiting on customers, or handling dishes that added contribution is appreciated by our customers.

Dedicated people from Fuller's and A&W Divisions servicing customers from Quebec to British Columbia.







FIVE YEAR STATISTICAL REVIEW

(000's eliminated)

	1972	1971	1970	1969	1968
Sales	$15,398	$12,966	$13,181	$12,945	$11,412
Franchise fees			123	88	
Other income	157	270	258	173	52
	15,555	13,236	13,562	13,206	11,464
Cost of sales	5,402	4,713	4,967	4,986	4,473
Operating expenses	8,491	7,155	7,353	7,142	5,598
	13,893	11,868	12,320	12,128	10,071
Operating profit	1,662	1,368	1,242	1,078	1,393
Depreciation & amortization	366	318	342	313	271
Interest	235	181	223	162	119
	601	499	565	475	390
Income before taxes	1,061	869	677	603	1,003
Income taxes	517	396	287	294	383
Income before extraordinary items	544	473	390	309	620
Extraordinary income (expenses)	51	848	(1,109)		
Net income (loss) for year	$ 595	$ 1,321	$ (719)	$ 309	$ 620
Average number of shares outstanding (Note)	2,631	2,625	2,625	2,451	2,340
Earnings per share before extraordinary items	$ .21	$ .18	$ .15	$ .13	$ .26
Earnings (loss) per share	$ .23	$ .50	$ (.27)	$ .13	$ .26

NOTE:
For purposes of comparison the 1968 earnings per share are computed using the number of shares outstanding immediately prior to the public offering.

DIRECTORS:

Richard Frederick Bolte
Kenneth Alfred Fowler
LeRoy Earl Fuller
Jerroll Russell Johnston
Joseph Clement Murphy
Ross James Turner

OFFICERS:

LeRoy Earl Fuller
J. Marcel Prefontaine
Robert Richard Roe
D. Glen Neil

AUDIT COMMITTEE:

Kenneth Alfred Fowler
Joseph Clement Murphy
Ross James Turner

HEAD OFFICE:

Vancouver, Canada

SOLICITORS:

Davis & Company

TRANSFER AGENT:

Canada Permanent Trust Company

AUDITORS:

Clarkson, Gordon & Co.

BANKERS:

The Toronto-Dominion Bank

STOCK LISTING:

Toronto Stock Exchange
Symbol: CFS

A & W DRIVE-INS:

Ontario:

Belleville—1
Brockville—1
Cornwall—2
Kingston—1
London—4
Mississauga—1
Niagara Falls—2
Oakville—1
Port Colborne—1
Port Credit—1
Richmond Hill—1
St. Catharines—2
Stratford—1
Trenton—1
Welland—2
Woodstock—1

British Columbia:

Victoria—4
Campbell River—1
Nanaimo—1
Courtenay—1
Duncan—1
Abbotsford—1
Haney—1
White Rock—1
Port Coquitlam—1
Chilliwack—1
Langley—1

Alberta:

Edmonton—10

Quebec:

Granby—1
Sherbrooke—1

FULLER'S RESTAURANTS:

Alberta:

Edmonton—3
Calgary—2

Ontario:

Toronto—4

British Columbia:

Vancouver—1

Under Construction:

Alberta:

Edmonton—2

Saskatchewan:

Saskatoon—1
Regina—1

Ontario:

Ottawa—2
Hamilton—1

Quebec:

Hull—1

British Columbia:

Vancouver—1

OTHER UNITS:

Manitoba:

Winnipeg—1

Alberta:

Edmonton—2

Fuller's

FULLER'S GROWTH

1970 — One unit
1971 — Four units
1972 — Ten units
1973 — Twenty-two units projected

New market areas, greater market penetration, new promotional campaigns, and improved performance will make the Fuller's Division a significant contributor to your Company's future growth.

A&W

A&W's PROGRESS

The Company has every reason to be enthusiastic about the future of this Division.
Strong regional associations, new advertising programs, new sales campaigns combined with the marketing expertise of Lever Brothers, the new parent of A&W Food Services of Canada Ltd., will keep A&W the leader in its field.

SHOPPING CENTRES—*a new concept*

This year the Company will make a major entry into merchandising a comprehensive food service in conjunction with large shopping centres.

Our first project is the establishment of 12 *food service* locations within the new *Square One* Shopping Centre at Mississauga, Ontario to open October, 1973.
Excluding in-house facilities, we will be the only food service vendor within the complex.
Throughout the 12 locations a variety of foods and styles of service will be offered:
A steak/lobster house, around-the-world gourmet dining, specialty foods, plus instant service malt and snack bars.

This concept of comprehensive service to a concentrated market is a new merchandising horizon in the food industry that offers another exciting base of operations for your Company.

CONTROLLED FOODS INTERNATIONAL LTD.

DESIGNED & LITHO'D BY PRICE PRINTING LTD., VANCOUVER, CANADA